

Preaward Audit of the Government of Jamaica's Ministry of Justice and Ministry of National Security

Audit Report No. 1-532-02-001-F

January 31, 2002

Regional Inspector General / San Salvador



U.S. Agency for
International
Development

RIG/San Salvador

January 31, 2002

MEMORANDUM

FOR: USAID/Jamaica Director, Mosina H. Jordan

FROM: Acting RIG/San Salvador, Steven H. Bernstein

SUBJECT: Preaward Audit of the Government of Jamaica's Ministry of Justice
and Ministry of National Security (Report No. 1-532-02-001-F)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on our draft report. Your comments are included in their entirety in Appendix II.

This report contains one recommendation for your action. Final action has been taken and, therefore, the recommendation is closed upon issuance of this report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

At the request of USAID/Jamaica, the Regional Inspector General/San Salvador performed this preaward audit to determine whether the Government of Jamaica's Ministry of Justice and Ministry of National Security have sufficient financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements. (See page 4.)

We found that the Government of Jamaica's Ministry of Justice and Ministry of National Security did have sufficient financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements. However, the ministries did not implement a system to track and account for non-expendable property. (See pages 4 through 6.)

USAID/Jamaica agreed with our report and recommendation and final action has been taken. (See page 7.)

Background

USAID/Jamaica on September 28, 2001 signed a strategic objective grant agreement with the Government of Jamaica for improved citizen security and participation in democratic processes. This grant will provide approximately \$13 million in USAID funding, while the Government of Jamaica will contribute approximately \$1.6 million.

Under this agreement, USAID/Jamaica will work with the Ministry of Justice and Ministry of National Security to broaden and deepen civil society and empower citizenry through civic education and community-based activities. In addition, this agreement intends to improve the efficiency of the court system.

The grant will finance a number of activities for the purpose of achieving the objective, as noted above, and two key intermediate results: "Civil Society More Actively Engaged in Issues of Governance" and "Improved Community-Police Relations and Efficiency of the Justice System."

As of November 1, 2001, the Ministry of National Security and Justice was divided into two new ministries: The Ministry of Justice and the Ministry of National Security. The two new ministries are using the same accounting and financial systems, policies and procedures.

Audit Objective

At the request of USAID/Jamaica, the Regional Inspector General/San Salvador performed the preaward audit to answer the following question:

- Do the Government of Jamaica's Ministry of Justice and Ministry of National Security have sufficient financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements?

Our audit entailed the review of six areas: accounting system; internal control; proposed project costs; financial management capability; compliance with applicable laws, regulations and agreement terms; and prior audit recommendations. Appendix I describes the audit's scope and methodology.

Audit Findings

Do the Government of Jamaica's Ministry of Justice and Ministry of National Security have sufficient financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements?

The Government of Jamaica's Ministry of Justice and Ministry of National Security do have sufficient financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements. The six areas reviewed in our audit are discussed in detail in the following sections of the report.

Accounting System and Internal Control

Both ministries have an acceptable accounting system that is capable of segregating USAID revenues and costs from those of other projects. Both ministries intend to work with USAID/Jamaica to determine what accounting and financial information needs to be captured to prepare a fund accountability statement and a cost sharing schedule. Accounting system entries are up to date. Bank statements are reconciled timely with the accounting records. Control over bank accounts and payments is adequate. In addition, both ministries intend to establish a distinct bank account for the USAID funds once the disbursement of funds is approved.

Internal control is acceptable for procurement, budgeting, accounting, payments, and payroll. The current staffing levels provide an adequate segregation of duties among the accounting and finance staff. The ministries have written procedures for the budgeting, purchasing, accounting, and treasury functions. However, the ministries lack control over non-expendable property.

The Ministries Lack a System to Track and Account for Non-Expendable Property

According to the U.S. General Accounting Office's "Standards for Internal Control in the Federal Government," (GAO/AIMD-00-21.3.1, dated November 1999) an agency must establish physical control to secure and safeguard vulnerable assets. Such assets should be periodically counted and compared to control records. The ministries did not implement such a system because it was not a high priority for them. As a result, the ministries are unable to track and account for non-expendable property. USAID/Jamaica intends to provide approximately \$500,000 for non-expendable property.

Recommendation No. 1: We recommend that USAID/Jamaica obtain evidence that the Government of Jamaica's Ministry of Justice and Ministry of National Security have implemented a system to track and account for non-expendable property before the mission disburses any funds for the purchase of non-expendable property.

Proposed Project Costs

A detailed plan for fulfilling the \$1,625,000 cost sharing requirement has not been elaborated. In this area, USAID/Jamaica will be responsible for providing the necessary oversight and training of ministry officials. Therefore, we are not making any recommendations since the programming, implementation, coordination and monitoring of the program have not yet been developed.

Financial Management Capability

The ministries do not anticipate significant changes to their organizational structure to manage the USAID agreement. The current staffing levels will be sufficient in terms of numbers, experience, responsibilities, workload, and/or expertise, although the ministries may employ one or two additional people. Our review of the qualifications of current financial management staff indicates that they have the technical expertise to manage current operations and the capacity to prepare financial statements. In addition, we discussed the financial statement requirements for USAID programs with ministry officials who adequately demonstrated their understanding of these requirements.

Compliance with Laws, Regulations, and Agreement Terms

We reviewed the ministries' ability to comply with certain terms of the agreement, such as the provisions for (1) utilization of goods and services, (2) taxation, and (3) reports and information, agreement books and records, audits and inspections. Our review indicated that the ministries will be able to comply with these requirements.

Prior Audit Recommendations

The ministries had not previously received USAID funds so there are no prior audit recommendations.

Other Issues

We identified another finding, which was not significant to the audit objective and thus, is not reported in this audit report. This finding pertained to the accounting of cost sharing expenditures. This finding was communicated to USAID/Jamaica by a separate memorandum dated January 31, 2002.

Management Comments and Our Evaluation

In its comments to our draft report, USAID/Jamaica accepted the recommendation and implemented it. The mission submitted a certification from the Government of Jamaica's Ministry of Justice and Ministry of National Security that they implemented a system to track and account for non-expendable property. Therefore, final action has been taken and the recommendation will be closed upon issuance of the report.

**Scope and
Methodology****Scope**

At the request of USAID/Jamaica, the Regional Inspector General/San Salvador conducted a preaward audit of the Government of Jamaica's Ministry of Justice and Ministry of National Security in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Jamaica and at the Ministry of Justice and Ministry of National Security, which share the same location, from November 27, 2001 through December 3, 2001.

This preaward audit was limited to tests of the ministries' financial management capabilities. We did not review their capacity to produce performance reports or to develop reliable and measurable performance indicators. Similarly, we could not determine if financing sources were going to be sufficient to ensure a proper implementation of the project. Consequently, this audit report cannot be used as a basis to give assurance that the ministries have the capacity from a performance perspective to attain project goals.

The strategic objective grant agreement was signed on September 28, 2001. The mission estimates that expenditures for this five-year program will reach \$13 million.

We assessed risk exposure and the effectiveness of the Government of Jamaica's Ministry of Justice and Ministry of National Security management control to manage USAID funds in accordance with U.S. government and USAID requirements. Our assessments were based on interviews with USAID/Jamaica and Ministry of Justice and Ministry of National Security officials, as well as a review of documents. Up until November 1, 2001, the two ministries were combined into one ministry. As a result, at the time of the audit, the senior finance and accounting officials handled the accounting and finance systems for both ministries. The management controls were reviewed in the following areas: accounting system; internal control; proposed project costs; financial management capability; compliance with applicable laws, regulations and agreement terms; and prior audit recommendations.

Methodology

The objective of this preaward audit was to determine if the Government of Jamaica's Ministry of Justice and Ministry of National Security had the financial management capacity to manage USAID funds in accordance with U.S. government and USAID requirements. Our audit entailed the review of six areas: accounting system; internal control; proposed project costs; financial management capability; compliance with applicable laws, regulations and agreement terms; and prior audit recommendations.

Appendix I

In answering this audit objective, we interviewed officials as well as reviewed and tested documentation at USAID/Jamaica and the Ministry of Justice and Ministry of National Security. Such documentation included organization charts, accounting records, financial statements, the strategic objective grant agreement, and the ministries' procedure manuals for various functional areas including budgeting, purchasing, and treasury. We reviewed the agreement provisions to determine which of these could have a material effect on the ministries' project financial management capability if not observed. We also assessed the applicable internal control systems of several functions, particularly its accounting system. Because the ministries had not prepared any financial reports for USAID, we instead reviewed their financial statements.

With regard to internal control, we reviewed and obtained an understanding of the ministries' internal control. Given the absence of actual USAID-funded transactions and events, our assessment was limited to reviewing current controls and assessing their applicability to the proposed USAID-funded project. The management of the ministries is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and, that transactions are recorded properly. In addition, management implements control to reasonably ensure that a program can meet its objectives; valid and reasonable data are obtained, maintained, and fairly disclosed in reports; and resource use is consistent with laws and regulations. Because of inherent limitations in any internal control structure, noncompliance or abuse may nevertheless occur and not be detected. Also, projections of any review of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

**Management
Comments**



**USAID/Jamaica
Office of Financial Management**

Memorandum

To: Timothy Cox, Regional Inspector General, San Salvador
From: Robin Brinkley, Acting Mission Director
CC: Mary E. Lew, Regional Controller, USAID/Jamaica-Car.
Date: January 16, 2002
Subject: **Preaward Audit of the Government of Jamaica's Ministry of Justice and Ministry of National Security (Report No. 1-532-02-00X-F)**

We have reviewed the draft report on the captioned and note your conclusion that the Ministries have the requisite financial management capabilities for managing USAID funds. We also note the following recommendation that was made in the report.

Recommendation No. 1: We recommend that USAID/Jamaica obtain evidence that the Government of Jamaica's Ministry of Justice and Ministry of National Security have implemented a system to track and account for non-expendable property before disbursing any funds for the purchase of non-expendable property.

We have advised the Ministries of your recommendation. Please find attached their response outlining the management of NXP under USAID funding. Once USAID funds have been expended for NXP the Mission's office of financial management (OFM) will perform periodic financial reviews to ensure that the Ministries comply with the recommendation.

Please note also some other items that should be amended in your final report:

- 1) On page three the final paragraph in the Background section should be adjusted to read the Ministry of National Security and Justice instead of the Ministry of Justice and National Security.
- 2) On page seven in the first paragraph USAID/Jamaica should replace USAID/Colombia.

Based on the above we request that you close the recommendation No. 1.